CalPERS
Office of Health Plan Administration
Long-Term Care Program
P.O. Box 942719
Sacramento, CA 94229-2719
TTY for Speech and Hearing Impaired: (916) 795-3240
(916) 795-0041, FAX (916) 795-3905

December 14, 2010

AGENDA ITEM 5b

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Long-Term Care Program 2010 Annual Valuation Report

II. PROGRAM: Long-Term Care

III. RECOMMENDATION: Staff recommends the Board accept the Long-Term Care Program 2010 Valuation Report.

IV. BACKGROUND:

The CalPERS Long-Term Care (LTC) Program 2010 actuarial valuation as of June 30, 2010, was completed by United Health Actuarial Services, Inc. (UHAS). Their assignment was to develop a projection of future cash flows and to evaluate the adequacy of current assets and premium levels based on those cash flows. As the starting point for the development of the 2010 valuation, they utilized their work on the 2009 annual valuation along with previous valuations.

V. ANALYSIS:

June 30, 2010 Valuation Report

The following table illustrates the various "base case" scenarios A, B, and C beginning with the June 30, 2009 valuation through the September 30, 2010 updated valuation.

It is important to note that the scenario B valuation result as of June 30, 2010, is a (2.98%) projected deficit compared to the June 30, 2009 valuation result of (32.60%).

	Scenario	A	B	C
Valuation Projection Date	Valuation Investment Return Assumption	Without 2010 Rate Increases	With 2010 & Ongoing Rate Increases	With 2010 & Ongoing Rate Increases, Decreasing Investment Return Assumption to 5.5%
6/30/2009	7.79%	(32.60%)	NA	NA
6/30/2010	7.79%	(42.42%)	24.25%	(13.26%)
6/30/2010	6.38%	(86.52%)	(2.98%)	(18.85%)
9/30/2010	6.38%	NA	0.10%	(16.90%)

The three sets of "base case" scenarios illustrate the improvement between the June 30, 2010 and September 30, 2010 valuations and are summarized below:

- Scenario A - Without Approved Rate Increases: This scenario reflects the financial status of the LTC Program if the Board had not approved the rate increases in December 2009. In this scenario, the projected deficit is approximately (86.52%) of the present value of future premiums or $2.1 billion.

- Scenario B - With Approved Rate Increases: This scenario reflects the currently approved premium rate increases and all associated assumptions, and therefore was recommended by UHAS to use for financial reporting purposes. This scenario assumed that on-going 5% increases would apply to policyholders owning LTC1 Lifetime plans with built-in inflation protection beginning in 2011. LTC1 Lifetime plans represent 79,981 or 50% of our 159,528 policy holders as of June 30, 2010. In this scenario, the projected deficit is approximately (2.98%) of the present value of future premiums or $93.3 million.

- Scenario C - With Approved Rate Increases and Decreasing Investment Return Assumption to 5.5%: This scenario is based on the decreasing investment return assumption similar to that utilized in the development of the 2009 rate increase recommendations. It also assumes the on-going 5% increase to policyholders owning the LTC1 Lifetime plan with built-in inflation protection. The investment return assumption assumes that the Program's investment strategy would gradually shift to a more conservative mix of assets over the next 9 years. In this scenario, the projected deficit is approximately (18.85%) of the present value of future premiums or $615 million.

The “base case” result from the 2009 valuation (Scenario A) was a projected deficit of (32.60%) of the present value of future premiums or $787.2 million. This is prior to the 2010 rate increase and uses the 7.79% investment return assumption.

September 30, 2010 Update Valuation Report

Updating the fund to the actual September 30, 2010, balance and updating the inforce data as of this date, the September 30, 2010, valuation result is a projected surplus of 0.10%, compared to the June 30, 2010 deficit of (2.98%).

September 30, 2010 Update-Shock Lapse and Conversion

As a result of the July 2010 rate increases, actual shock lapses and conversions have been calculated. The actual shock lapses and conversions resulting from the July 2010 premium rate increases through September 30, 2010, are provided along with actual-to-expected ratios.

<u>Shock Lapses Relating to the 2010 Rate Increase</u>

Attained Age	Expected	Actual	Actual-to-Expected
< 60	2.00%	1.47%	74%
60 – 69	1.25%	0.85%	68%
70 – 79	0.50%	0.42%	85%

Conversions Relating to the 2010 Rate Increase

<u>Lifetime to Six-Year Benefit Period</u>

Expected	Actual	Actual-to-Expected
10%	10.6%	106%

Of the policy holders that converted from lifetime, nearly a quarter converted to the three-year benefit period instead of the six-year benefit period as originally assumed. The three-year benefit period has lower expected claims compared to the six-year benefit, and thus the projected claims are lower than expected from these conversions to the three-year benefit period.

<u>Decrease in Maximum Daily Benefit Amount</u>

Expected	Actual
0%	1.85% Reduction

The decrease in the maximum daily benefit amount was not modeled because it was not expected to have a significant impact on the results. This conversion is significant because the reduction of policy holders' daily benefits will lower projected claims.

UHAS Recommendations

Attached is the 2010 Long-Term Care Program Executive Summary prepared by UHAS and the valuation report. The Executive Summary summarizes valuation results from the 2009 annual valuation, the 2010 annual valuation and the September 30, 2010 update.

Given the results of this valuation and the supporting analyses, UHAS recommends the following:

- That we provide liability projections under various investment returns as requested by CalPERS investment staff to support the development of the investment strategy to reduce the volatility of Program financial results going forward; and,

- That we closely monitor emerging experience and report to CalPERS staff on a quarterly basis regarding actual versus projected experience.

VI. STRATEGIC PLAN:

This item relates to Strategic Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

Costs associated with the valuation report are within the current terms of the agreement.

KATHLEEN DONNESON, Chief
Office of Health Plan Administration

KATHLEEN BILLINGSLEY
Assistant Executive Officer
Health Benefits Branch

Attachment